STUDENT ID NO

MULTIMEDIA UNIVERSITY

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FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BAC7074 – INFORMATION SYSTEM AUDIT

(MACC Weekend)

14 AUGUST 2016
10:00 am – 1:00 pm
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with 4 Questions only.

2. Attempt all 4 questions. All questions carry equal marks and the distribution of marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

Question 1 (25 Marks)

Premark Sdn Bhd is a group of companies that supplies RFID reader and accessories. Each store has a full-time, salaried manager and an assistant manager. The sales personnel are paid an hourly wage plus a commission based on sales volume. The company uses electronic cash registers to record each transaction. The salesperson rings up the order by scanning the item's bar code card, which then displays the item's description and unit price. The salesperson enters the quantity sold as well as his or her employee number. The cash register automatically assigns a consecutive number to each transaction. The cash register prints a sales receipt that shows the total, any discounts, the sales tax, and the grand total. The salesperson then collects payment from the customer, gives the receipt to the customer, and either directs the customer to the warehouse to collect the items purchased or makes arrangements with the shipping department for delivery. If the customer wishes to purchase on credit, the salesperson is also responsible for credit approval on credit card sales and approving sales paid by check. Sales returns are handled in exactly the reverse manner, with the salesperson issuing a return slip when necessary.

At the end of each day, the cash registers print a sequentially ordered list of sales receipts and provide totals for cash; credit card, and check sales, 'as well as cash and credit card returns. The assistant manager reconciles these totals to the cash register tapes, the total of the consecutively numbered sales invoices, and the return slips. The assistant manager prepares a daily reconciled report for the store manager's review.

Cash sales, check sales, and credit card sales are reviewed by the manager, who prepares the daily bank deposit. The manager physically makes the deposit at the bank and files the validated deposit slip. At the end of the month, the manager performs the bank reconciliation. The cash register tapes, sales invoices, return slips, and reconciled report are electronically forwarded daily to corporate headquarters to be processed with files from all the other stores. Corporate headquarters returns a weekly Sales and Commission Activity Report to each store manager for review.

Required

Assume you are one of the audit team members that have been appointed to audit Premark Sdn. Bhd. You are required to respond to the following questions about Premark Sdn Bhd's operations based on the preceding narrative:

a. Identify the risk(s) that Premark face. Your discussion should relate to the fourth component of the COSO ERM framework which is risk assessment.
b. Identify control strengths in Premark's sales/cash receipts system.
c. Based on the COSO ERM framework component that deals with control activities, what control activities do these strengths fall under?
d. Based on question b above, explain the problems that could be avoided or risks mitigated by the controls identified.

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e. How might Premark improve its system of controls?

(5 marks for each section)

Question 2 (25 Marks)

Pandalala is the head of internal auditor for Pepso Manufacturing Company and she is participating in the audit of the company's AIS. She has been reviewing the internal controls of the computer system that processes most of its accounting applications. She also have studied the company's extensive documentation of its systems and have interviewed the MIS manager, operations supervisor, and other employees to complete her standardized computer internal control questionnaire.

She has reported to the board of audit committee that the company has designed a successful set of comprehensive internal controls into its computer systems. The board thanks her for the efforts and asks for a summary report of her findings for inclusion in a final overall report on accounting internal controls.

Required

a) In your opinion, discuss if the above audit procedures are sufficient for the internal auditor to arrive to the conclusion on the internal control of the company.

(10 marks)

b) Suggest and explain five examples of specific audit procedures that you might recommend before reaching a final conclusion.

(15 marks)

Question 3 (25 Marks)

a) As one of the pioneers to implement the enterprise resource planning (ERP) solution, New Trend Sdn Bhd has much to say about how business and daily operations have improved since adopting the tool. This manufacturer of packaging material has been using the SAP ERP software since 1995.

"It has always been the company's vision to be technologically up-to-date in our office and manufacturing processes," says New Trend's supply manager Mr. Omar Ali. For its initial implementation in 1995, the company spent over RM300,000, including servers and other hardware, software and consultation.

Through the years, it undergone major upgrades from operating on a disk operating system to a window based system, and other upgrades which saw additional investment of over RM300,000. "We were able to migrate to its modules in six months.

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We also did not have any parallel runs, we just stop using the old software and changed to the new modules," says Mr. Andy Lau, the management information system manager. The software covers about 90% of the operational needs.

New Trend is using almost the full suite of modules offered within the software, including accounting, distribution, light manufacturing, manufacturing planning and control and advanced manufacturing. "We managed to reduce staff force by eight people and also saved costs with better inventory management and planning".

We don't keep too much or too little stock, we don't under or over produce, and because those information are available real-time, the management can make quicker decision," Mr. Omar said. In addition, response to customer request is faster, with the software facilitating just-in-time deliveries. With such computerized functions, New Trend now utilizes the Vendor Management and Inventory system with two of its customers. At present, the company is in the process of migrating the same system to its subsidiaries, Fast Track Sdn Bhd and Speedy Sdn Bhd.

Based on the case study above, discuss how a typical ERP systems (e.g. SAP) implementation provides an advantage to an organization.

(15 marks)

b) Business organizations are required to modify or replace a portion or all of their financial information system in order to keep abreast with growth and take advantage of improved information technology. The process involved in modifying, enhancing or to an extent replacing an information system requires a substantial commitment of time and resources. In view to this statement, we agree that when an organization undertakes a change in its information system, a series of steps is followed.

Required:

Prepare brief notes on the "Systems Development Life Cycle". For each steps or phases, identify one control objectives that relates to the steps.

(10 marks)

Question 4 (25 Marks)

a) There was a new movie recently released that you were eager to watch with your friends. After a short discussion with your friends, you have decided to watch it on the first day of the show being released. You tried to purchase the tickets online but it was sold out. So, on the day the show, after a long queue, you managed to buy five pre-numbered ticket from the cashier. This ticket is then handed to another person at the entrance to the movie.

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Required:

i. Discuss two main irregularities the theatre trying to prevent.

ii. Elaborate two controls the theatre can implement to prevent the irregularities mentioned in part i. above.

(15 marks)

b) Supposed the theatre intends to change its current system, in your opinion, should internal auditors be members of systems development teams that design and implement an information system? Why or why not?

(10 marks)

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